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SUBJECT: VIETNAM DPM DZUNG DINNER ON CORRPUTION

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A) Hanoi 771; B) Hanoi 1090

¶1. (SBU) Summary and Comment: Deputy Prime Minister (and putative Prime Minister) Nguyen Tan Dzung gave assurances to international contributors to Vietnam's economic development that the Government of Vietnam (GVN) will get to the bottom of the major scandal involving misappropriation of funds in several large transportation infrastructure projects (The PMU-18 case, Refs A and B). During a lengthy dinner conversation with representatives of major donor institutions and countries, Dzung acknowledged that the corruption problem was much broader than the PMU-18 case alone. He welcomed assistance and advice from the international community to help Vietnam uncover weaknesses in its management controls and to continue its economic reform efforts as the country moves to WTO accession. In fact, Dzung outlined in some detail the extent that economic, administrative and legal reforms are interconnected with getting better control over corruption. He said that the GVN welcomed help by the press in identifying "loopholes," but cautioned that the press should avoid false accusations. He also commented that unless the Communist Party is able to meet the anti-corruption challenge, it could lose public confidence and be unable to keep its leadership role. The proof of GVN commitment will emerge over time as demonstrated by concrete actions. We believe that outside audits should be demanded for all project management units (PMU) involved in managing multilateral development bank (MDB) loans as well as of the GVN Development Christian Fund. Nevertheless, we are encouraged by Dzung's forward leaning posture and clear commitments. We see the call for donor advice and assistance as an opportunity to sharpen our ongoing governance efforts through legal reform. End Summary and Comment.

¶2. (SBU) Deputy Prime Minister Nguyen Tan Dzung met with representatives of international financial institutions and ambassadors from major donor countries over dinner May 19. He committed the GVN to a serious effort to address corruption in Vietnam. Ambassadors,

charges and aid directors from most donor countries had met the previous week at the World Bank office to coordinate an approach to the GVN in the wake of the PMU-18 scandal. World Bank representative Klaus Rohland informed the donors that DPM Dzong had agreed to meet with a group from the donor community. (Note: Dzong has been nominated by Prime Minister Phan Van Khai to be the next PM, a decision that may be confirmed soon by the ongoing National Assembly session.) DPM Dzong suggested that it would be more effective for him to meet with a small group from key countries and organizations. Consequently, Minister of Planning and Investment Vo Hong Phuc hosted the dinner with the DPM, inviting Ambassadors or charges from Japan, Germany, France, Australia, Netherlands, the EC and representatives of The World Bank, the UN, ADB and DFID. Charge Boardman represented the U.S. Mission.

13. (SBU) DPM Dzong set the stage by pointing out that Vietnam is at a very important stage in its development process. The Communist Party has just finished its Tenth Party Congress and emerged committed and organized to continue rapid progress in economic development and in strengthening democracy. The GVN wants continued help from donors for its reform efforts as it carries out its social and economic development plan for the next five years. Following the recent agreement in principle in the WTO bilateral with the United States, the GVN is optimistic that it will be able to accede very soon. Vietnam welcomes assistance and advice from its friends on how best to structure itself to fully integrate into the world market and society. At the same time, the PMU-18 scandal has been a blow to public and donor confidence. The GVN is determined to get to the bottom of the case, punish the guilty, and address systemic weaknesses.

14. (SBU) MPI Minister Phuc expanded on corruption,

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specifically the MPU-18 case. He promised the investigation will continue until authorities are satisfied that they have discovered all those involved. There would be no hesitation in punishing the guilty, no matter how high culpability should go. Already seven or eight vice ministers and ministers have been affected. The Government is also examining weaknesses in the regulatory, financial and legal systems that present opportunities for corruption. The GVN will continue in a transparent manner and keep in close communication with the donors in the process. Special assessment missions from Japan, the World Bank and DFID are already scheduled; the GVN welcomes their help and suggestions.

15. (SBU) In response to a comment from the World Bank representative on the role of a free press, DPM Dzong added that the GVN realizes that the system has weaknesses. There is a need for a solid legal framework, institutional structure and good government officials. The Government must enhance transparency and democracy so that people can be "masters" of the system. The press can help in uncovering "loopholes." The Party and Government, however, have a clearly defined point of view. The facts will be uncovered, regardless of whoever is involved, or where the investigation leads. Government ministers have been called to account before the National Assembly. Deputies have commented that never before has an investigation resulted in action against so many senior officials. Nor has there ever been such extensive and open testimony by GVN officials before the Assembly. Dzong will encourage the press to continue to uncover facts as the investigation goes forward, but the press should be careful not to "wrongly accuse." The GVN is working at two levels on corruption. First, it is

investigating and prosecuting this specific case. Second, it is trying to determine the "pitfalls" in the system.

¶16. (SBU) Minister Phuc reported that the Government has submitted to the Assembly a resolution on measures to improve systemic weaknesses. In response to a question from the Japanese Ambassador, Phuc said that he expects the PMU-18 investigation to last another three months. This is "too long," according to the Japanese Ambassador, who also asked how much foreign assistance is involved in the PMU-18 case. Phuc responded that the Government will continue to report publicly as progress is made. So far, the investigation has concentrated on the betting scheme organized by the Director General of PMU-18. According to computer forensics, USD two million is estimated to have been diverted, but specific details regarding only about 100,000 USD had been recovered from computers. Interrogations indicated that contractors had been required to give kick-backs of five percent of their profits. The details are difficult to track because of cooked books, but audits of major building projects on National Highways 10 and 18 for two major bridge projects, including examination of quality control certificates from Vietnamese and foreign experts, do not suggest that the projects are below standard. Nor, based on investigations so far, does it appear that foreign aid funds were a large percentage of those stolen.

¶17. (SBU) The Norwegian Ambassador noted that Vietnam ranks high on international rankings for concern about lack of transparency and corruption. This was a clear reflection of lack of trust by the important international business community. DPM Dzung responded that the political leadership is aware of this. He suggested that WTO-mandated and other economic reforms would improve the environment. For example, 3,000 of approximately 5,000 State-owned enterprises (SOE) have already been equitized. Instances of corruption have fallen sharply in SOEs already equitized. Most of the remaining SOE will be equitized in the next two years. All of the state commercial banks will be equitized in the next five years. Vietnam's economy is in

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transition from a planned to market system. This is a great challenge, but reaching the WTO's standard with the help of the donors will enable Vietnam to carry through with radical reform and reduce corruption at the same time.

¶18. (SBU) The EC Ambassador noted that the EC aid program has not been touched directly by the PMU-18 scandal, but only because the EC does not trust GVN auditing and thus has not worked through the PMU system. The DPM noted that the State Auditing authority is being brought up to international standards. The EC representative said that the EC would prefer to rely on the GVN to police itself and has hopes for the State Auditing authority and the Government Inspectorate, which is now being put under National Assembly responsibility. In most cases, corruption can be traced to a failure to monitor closely. Once corruption is discovered, it is not enough for the government agency to acknowledge the problem and blame one individual. The agency responsible should make "restitution" to recover funds for the project. Dzung said that he agreed. The Agency should be responsible, but a specific official must be held accountable.

¶19. (SBU) The DFID representative reported that UK public confidence in the Vietnam aid program has been shaken by the PMU-18 scandal. The UK would like to

increase its assistance to Vietnam, but reassurances of greater accountability will be necessary. DPM Dzung said that he too is concerned about public confidence, in Vietnam and abroad. He repeated that the GVN wants to address the problem by achieving high rates of economic growth while putting in place an action plan to implement the anti-corruption law. He encouraged the donors to get involved, to send review missions and let the GVN know of weaknesses and shortcomings discovered. The ADB representative reported that his organization would be sending a team to investigate the relationship between PMU-18 and the Ministry of Transportation to see if proper checks-and-balances could be put in place. The ADB is contemplating increasing its programs in Vietnam by up to 50 percent. However, the confidence of board members is critical; they must be satisfied. Monitoring the life style of suspected malefactors and recovery of stolen money are important means to restore confidence.

¶10. (SBU) The EC representative told the DPM that corruption goes well beyond irregularities in major public projects. For example, exporters of textiles estimate that 5 - 6 percent of the export value of their product is needed just to pay to expedite the paper work to clear manufacturing inputs through customs. One way of improving the situation would be to move more rapidly away from a cash economy. The World Bank representative stressed that as long as Vietnam maintained a system of multiple layers of permits and registration requirements for normal activities, it would be vulnerable to corruption. Charge agreed and indicated that as we examined ways to support Vietnam in WTO compliance we could look at ways of making some requirements self-enforcing, by the firm and the individual. Examples could be in the area of tax reform or even the complex law on associations that has been in draft for years. The French Ambassador indicated an interest in helping improve the State Audit and Government Inspectorate functions. The German Ambassador advised that transparency and speed of transactions were also very important for the business community.

¶11. (SBU) DPM Dzung pointed to ongoing banking reform efforts and explained that the purpose is to make the Vietnamese system more compatible with international practices as a WTO member. The State Bank will become the Central Bank with the role of setting monetary policy. He repeated that the State commercial banks will be equitized. The exchange rate will set by indirect means; there will be a more relaxed control of

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foreign exchange. The private banking sector will be opened further in accord with WTO commitments. This is under discussion in the monetary policy committee.

¶12. (SBU) DPM Dzung summed up by listing five overarching GVN goals: To transform fully into a market economy; integrate into the international economy as a full member of the WTO; practice democracy; develop sustainable growth while reducing poverty and protecting the environment; and, carry out administrative reform and fight corruption. Vietnam will need cooperation and support from outside to design necessary reforms. The GVN values development assistance (ODA) greatly and pledges to use it wisely. Minister Phuc has presented to the National Assembly a comprehensive plan to use ODA more effectively. Many deputies have made constructive comments, and MPI welcomes suggestions from donors on how to improve the administration of ODA. The GVN is aware that ODA consists of loans for use by future generations.

¶13. (SBU) World Bank representative Rohland thanked

the DPM for allowing the donor community to share its concern over the problem of corruption and for the assurances of the highest level of government that this is being addressed seriously. Rohland noted that the corruption issue would be further elaborated at the upcoming Consultative Group meeting, where a joint GVN/donor action plan would be discussed.

¶14. (SBU) DPM Dzong remarked that even after 20 years of success, the Communist Party leadership realized that the Party could lose its lead role if it loses the fight against corruption. However, Party leaders are confident of success, with support from donors. Their seriousness is indicated in the firing of vice ministers and ministers. Next the GVN would move to more comprehensive measures.

¶15. (SBU) Comment: Reading Dzong's approach to the international community is not easy. On the one hand it is not new, and he could merely be paying lip service before an important audience while continuing the faade of cleaning up corruption in select cases. On the other hand, it is possible that he and the leadership could be serious, but we need to see concrete proof of this commitment through continued anti-corruption efforts and legal and administrative reforms. Even though the Standing DPM and next Prime Minister put himself on record about governmental responsibility and commitment, other contacts, especially in the media, have told us that the GVN is moving to limit the impact of the PMU-18 scandal on the Party as quickly as possible (Ref A - HCMC 503). Under this reading, the scandal was brought into the open as part of the maneuvering around the Party Congress and it is now time to get it back in the box. Similarly, the open media debate that preceded the Congress has reportedly been terminated by a party directive. It is clear from Dzong's attention to this issue that the GVN understands that PMU-18 could be a Pandora's box in its relations with donors. The dilemma for the GVN will be balancing the need to reestablish credibility with donors with the potential domestic damage of revealing too much. At the same time, the GVN will discuss corruption at the mid-term consultative group meeting June 8-9 and beyond. Given the potential liability of various donors and their growing concern with the current system, the issue could easily dominate the December Consultative Group meeting.

¶16. (SBU) These developments underscore the importance of continued U.S. assistance which is working to develop the broad legal and regulatory framework necessary for a modern economy. Our assistance, which is highly regarded, will help assure that Vietnam's economy is more transparent and our overall economic relationship is based on international standards.

¶17. (SBU) Action Recommendation: The USG does not directly fund infrastructure projects in Vietnam, but both the IBRD and ADB do. The current situation provides an unusual opportunity for the international community to press hard for greater transparency. We have seen this already on

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the part of bilateral donors in Hanoi, some of whom appear to have been shocked out of their complacency. We recommend that the USG and other donors begin by insisting on the elimination of corruption. One approach could be by requiring outside audits of all Project Management Units involved in managing multilateral development bank (MDB) loans and of the murky GVN Development Assistance Fund that is the initial depository of most such funds (Ref B 2005 Hanoi cable on DAF). But of course, the key will be the reliability of the audits since certain MDBs have a strong motivation to keep pumping money out with less regard for its utilization.

BOARDMAN